MEMORANDUM

PRIVILEGED AND CONFIDENTIAL
ATTORNEY CLIENT COMMUNICATION

BY FACSIMILE

TO: Mary O. Pottorff
FROM: Charles Lister
Michael T. Buckley
DATE: 25 February 1992
RE: Billing for European Projects

This memorandum proposes, as an initial step in our discussions with you, a revised method for dealing with billing for European projects in terms both of our consultants' work and C & B's fees and disbursements.

THE CURRENT SITUATION

Before presenting our proposal for dealing with European projects in the future, it may be useful to describe how these projects have been handled up to now.

(1) C & B Fees and Disbursements: We have provided two statements each month, one to Frederick Dulles for EEMA and one to Hugh Brass for EEC (which we subsequently learned had been passed on regularly to Helmut Gaisch after occasional chargebacks to the Region for work relating to topics such as advertising). Based on instructions from Frederick that were issued a couple of years ago, we broke out our fees for the EEMA Region with regard to the overall subject matters (ETS, Marketing Freedoms, etc.) for each country in the Region (and we did the same for the EEC Region for the sake of consistency). We also used a heading for the Nordic Region for work, such as general work with the EGIL Group, that related to Scandinavia in general. In addition, we used headings "EEMA General" and "EEC General" for work related to a Region as a whole. Thus, work on projects that were not tied to a particular country or related to either Region exclusively -- such as compilations of IAQ standards or general work with Indoor Air International -- was allocated to these general headings. Work that took place in or in relation to a particular country, on the other hand, was allocated to that country's heading. Thus, a meeting in Italy to recruit an Italian consultant was described as ETS-related work under the Italy heading.

In each case involving work on a particular subject matter in a particular country or general heading, the number of hours spent by particular lawyers and paralegals was itemized, with a subtotal figure in dollars for that work. Those subtotals were then added up to reach a total for the monthly invoice.

Disbursements were simply shown by type of expense -- duplicating, travel, etc. -- for the month for each Region, and then added up to reach a disbursement total. Disbursements were not broken down by country or project. The grand total for each

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month reflected the addition of the subtotals for fees and disbursements.

(2) Consultants: We have received invoices periodically from our consultants, describing the amount and type of work performed and itemizing expenses for travel and the like. After reviewing these statements we have forwarded them on a monthly basis to Helmut Gaisch in Neuchatel, who has approved them and transferred the funds to cover them into an account in PM's Lausanne bank, after which we have transmitted funds to the consultants. The consultants' work has not been broken out into work for the EEC or EEMA Regions or for individual national markets; rather, it has been treated as part of one overall European consultant program budget.

PROPOSAL

It is clear that the method just described did not distinguish between general scientific work performed by the consultants (and the attendant "care and feeding" - related fees from C & B), on the one hand, and, on the other hand, work related to specific requests from Corporate Affairs people in the Regions and national markets. It also sometimes included costs that were not strictly related to the consultant program. The categories set out by Frederick Dulles were not intended to account for such distinction, and they will not so serve without some modification. Accordingly, we propose the following new arrangement:

C & B Fees and Disbursements

(1) A new C & B billing subfile, entitled "Maintenance of European Consultant Program" or the like, could be created to cover activities such as the following: recruitment, training and updating of consultants; arrangements for and attendance at scientific meetings; work relating to consultants' contributions to such meetings and to scientific publications in general; review of relevant scientific literature; compilation of European IAQ standards and related research and monitoring activities; work relating to the general organization and conduct of IAI's affairs.

Statements reflecting work in this subfile would be submitted to New York and would be charged to a specific PM budget for the consultant program. As before, each statement would contain a narrative of the work performed and, if desired, a breakout as to the hours spent by specific individuals.

(2) Separate statements to the Regions under the current subfiles 19750-1 (EEMA) and 19750-2 (EEC) would cover the remaining work, including: arrangements for public relations activities in conjunction with consultants' activities; legal research, analysis, and drafting of documents such as company brochures on the EPA at the request of Corporate Affairs or national market personnel; briefing of Corporate Affairs personnel on ETS/IAQ issues; attendance at Corporate Affairs strategy meetings; work with consultants relating to contacts with journalists and public officials or others, again in

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response to specific requests, as well as consultants' publications in popular media, video appearances, and the like.

Statements reflecting work in these two subfiles would be broken out, as before, according to whether the work related to the Regions in general (such as an EPA brochure to be used throughout the Region) or to a particular market (such as media contacts in Italy). Likewise, the work would be characterized as related to ETS/IAQ issues, advertising, and so on, and would, if desired, continue to be broken out as to the hours spent by specific individuals.

We still need to arrive at an understanding of precisely how to allocate work between the general consultant program subfile and the two regional subfiles. Theoretically this could be done on an ad hoc basis as projects arise, but for budget planning purposes there clearly must be a workable division in place at the outset. The area of greatest concern involves activities that could fairly be characterized either as consultant "care and feeding" activities or as activities with relevance for the Regions or national markets, depending on one's perspective. For example, an IAI meeting in Prague focusing on IAQ standards issues has a component, in terms of relevance and possible benefit, that could be viewed as general scientific work relating to the consultant program in a global sense. On the other hand, such a meeting would be attended by consultants and outsiders from both Regions and the message to be communicated would relate to regulatory developments in both the EC and EFTA countries. Further, the particular venue in this example would call for an emphasis, in terms of participants and topics addressed, on issues of particular relevance to Eastern Europe. Thus, in this example, one could argue that work relating to the meeting should be apportioned among all three subfiles. We will need to reach an agreement among all concerned as to the appropriate scheme of apportionment. This agreement could then be put into practice either up front, in our monthly statements, or, what may prove to be more practical, after the fact in chargebacks to the Regions for portions of the work originally allocated to the general New York subfile.

(3) It would not be difficult as a general matter to assign disbursement charges to the foregoing three subfiles. For example, travel expenses associated with a general IAI meeting would be assigned to the new consultant maintenance subfile, while those associated with media arrangements in France would be assigned to the subfile for the EEC Region. Complications would arise only in instances where work for the subfiles overlapped. As an example, take an IAI meeting in Prague that involves arrangements for media contacts by scientific consultants. It would be impracticable to allocate all travel expenses, telephone charges and the like precisely between the general consultant maintenance subfile and the EEMA subfile in such cases. There would be two ways to handle these situations: we could use our best judgment as to particular expenses, or, what would be simpler, we could allocate disbursements overall as percentages tracking the legal fees in each subfile. Thus, if the invoices in a given month reflected, say, fees of 60% of the total in the general subfile and 20% each in the two Regional subfiles, the

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total monthly disbursements could be prorated accordingly. As far as breakdowns within the Regional invoices are concerned, if such breakdowns are desired for the national markets the only feasible way to prorate them would be to allocate the disbursements in the same way in correspondence with the legal fees. In other words, if, say, 5% of the EEMA legal fees for a given month related to work in or relevant to Norway, then 5% of the EEMA disbursements could also be charged to Norway.

Consultants' Invoices

In general, it would be a simple matter to ask our consultants to provide us with separate invoices setting forth fees and disbursements according to whether they related to the general consultant program or to Corporate Affairs activities in the Regions. Again, the only complication would involve disbursements in cases of an overlap, as when a consultant travelled to a city for a scientific meeting and then stayed longer to meet with the media at the request of Corporate Affairs. A solution resembling one of those proposed for handling the C & B disbursements probably could be arrived at, however.

Further Issues

We understand that accounting for the occasional requests that we receive from PM in New York, which we have hitherto invoiced through John Rupp using a single PM-New York billing subfile, will henceforth have to be bifurcated according to whether a request emanates from the Parrish group or Matt Winokur in Corporate Affairs. This should present no problem. The new general consultant program subfile discussed above would subsume any work relating to the Parrish group, and an appropriate additional subfile could be created with no difficulty to account for any work requested by Matt Winokur's office. Additionally, we can easily ensure that we understand how work is to be invoiced whenever we are contacted with a request.

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We hope that a proposal of the sort set forth in this memorandum would provide PM with a breakdown of information that fits well with the company's internal accounting system. In any case, our proposal should at least serve as a starting point for discussion, and we would be happy to consult with you further in an effort to arrive at a workable arrangement.

Charles Lister

Michael T. Buckley

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